

General Information Letter: Subtraction modification allowed to partnerships for a reasonable allowance for compensation paid or accrued for services rendered by partners explained.

February 29, 2000

Dear:

This is in response to your letter dated January 26, 2000 in which you request a Letter Ruling. Department of Revenue ("Department") regulations require that the Department issue only two types of letter rulings, Private Letter Rulings ("PLRs") and General Information Letters ("GILs"). PLRs are issued by the Department in response to specific taxpayer inquiries concerning the application of a tax statute or rule to a particular fact situation. A PLR is binding on the Department, but only as to the taxpayer who is the subject of the request for ruling and only to the extent the facts recited in the PLR are correct and complete. GILs do not constitute statements of agency policy that apply, interpret or prescribe the tax laws and are not binding on the Department. For your general information we have enclosed a copy of 2 Ill. Adm. Code Part 1200 regarding rulings and other information issued by the Department.

Although you have not specifically requested either type of ruling, the nature of your question and the information provided require that we respond only with a GIL.

In your letter you stated:

I have been confused with the instructions on IL 1065, Part I line 5c.

The instructions allow for a subtraction for "a reasonable allowance for compensation paid or accrued for services rendered by partners to you."

1) Is this referring to the guaranteed payments added back to ordinary income on line 2c above; or

2) is this referring to total receipts for personal services by the partnership in a service type company such as construction or professional services?

It seems to me that the partnership should not have to pay tax on an item passed through to the personal return, which guaranteed payments are passed through and that tax on the IL 1065 would only occur on the ordinary income that is greater than the exemption amount. Is this the correct assumption?

DISCUSSION

Line 5c of Part I on IL 1065 exists to allow a partnership to hire partners to perform services for the partnership, then deduct those wages when computing base income for Illinois income tax purposes. Accordingly, it is not designed to accomplish either of the alternatives you list in your letter. Rather, it merely puts a partnership on a similar footing as an S chapter corporation that can hire shareholders to work for the corporation and then deduct their wages for income tax purposes. This would apply to all partnerships, not merely service type companies.

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I hope that this has been helpful to you. If you have additional questions please feel free to contact me at the above address.

Very Truly Yours,

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